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Agriculture and the 106th Congress: A Summary of Major Issues

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Summary

For the last 3 years, abundant world supplies and declining export demand have kept prices for most U.S. farm commodities quite low. Most legislative activity on agriculture in the 106th Congress has focused on increasing farm income through additional government payments, expanding overseas markets, and reforming crop insurance. For FY2000, two enacted appropriations measures have added a total of $9.3 billion to regularly programmed farm spending. A third FY2000 farm aid package, passed by the House on May 25 as part of the crop insurance conference agreement (H.R.2559), contains an additional $5.5 billion in farmer payments for this fiscal year and $1.64 billion for FY2001. If enacted, this aid package will give qualifying farmers a total of $28 billion in direct government payments in FY2000. Longer term policy changes have been proposed, as well, including "farm safety net proposals" that would revise current farm policy to provide automatic countercyclical income protection for farmers. Neither these, nor proposals to increase government oversight of mergers by large agricultural manufacturers (which some see as a contributor to persistent low farm prices) are expected to see action before next year. Meanwhile, the House approved a proposal(H.R. 4444) granting permanent normal trade relations (NTR) status to China on May 24, 2000; this is expected to pass in the Senate. An exemption for food and medicine from an embargo on U.S. trade with Cuba and certain other countries is contained in the House Committee FY2001 agricultural appropriations bill (H.R. 4461).

Overview

The USDA projects that current supplies, especially of major field crops, are likely to maintain downward pressure on farm prices through much of this year, despite economic recovery in world markets and some growth in export demand. Although the "Freedom to Farm" provisions of the 1996 omnibus farm law have come under fire for failing to provide a "safety net" for farmers, most congressional observers see little chance of an agreement on major changes to farm policy in an election year. Therefore, most legislative action on farm assistance continues to focus on spending – in the form of another "emergency" funding package to further supplement FY2000 funding or add new funding for FY2001.

In the policy arena, the House has approved a conference agreement on crop insurance legislation (H.R. 2559) that, in addition to expanding eligibility and premium subsidies for farmers at an estimated cost of some $8 billion over the next 4 years, also contains a farm emergency aid package adding another $7.1 billion in farm income support. There also are a series of proposals intended to provide a farm income safety net by: (1) revising current market transition payments to reflect more recent production and income history, (2) increasing marketing loan assistance, and (3) restricting or increasing federal regulation of mergers by large agricultural manufacturers. None of these are expected to see action this year. In the trade arena, the House has approved a bill (H.R. 4444) granting permanent normal trade relations (NTR) status to China, which imports some $1 billion annually in agriculture products. The Senate is expected to approve this legislation, and the President to sign it. A less certain outcome awaits legislation (contained in the House Agriculture Appropriations bill for FY2001, H.R. 4461) that would exempt agriculture and medicine from an embargo on trade with Cuba and other countries. Disagreement over this issue has delayed House consideration of the FY2001 funding measure for agriculture.

Agriculture Spending. In 1999, the Congress approved two appropriations measures (P.L. 106-78 and P.L. 106-113) that added a total of $9.3 billion in "emergency farm assistance" to FY2000 spending for agriculture programs. Most of this spending (over two-thirds) was in the form of "market loss payments" to grain, cotton, oilseed, tobacco, peanut and dairy farmers. The addition of this and FY1999 funding increases[1] to existing programmed spending for agriculture is estimated by the USDA to bring total direct government payments to farmers in calendar year 1999 to a record high of $22.7 billion ($8.7 billion in the form of "emergency farm assistance."). The Congressional Budget Resolution for FY2001 (H.Con.Res. 290) contains a reserve fund of $7.14 billion for additional farm spending to mitigate the effects of continuing low commodity prices. Provisions that make use of this additional spending were added to the Conference Agreement on Crop Insurance legislation (H.R. 2559).

The Administration's FY2001 budget proposes $76.8 billion in total spending for the USDA and related agencies. This does not count the $5.8 billion increase in spending that would occur under the Administration's proposed "farm safety net initiative." Most USDA spending goes for domestic feeding programs ($31.5 billion proposed by the Administration for FY2001) and programs for farmers funded by the Commodity Credit Corporation ($27.7 billion). The House and Senate Appropriations Committees have proposed slightly less total spending for USDA and related agencies ($75.2 billion and $75.3 billion, respectively). This does not count the $7.1 billion in additional farm assistance attached to the Crop Insurance conference agreement. Several issues are delaying congressional consideration of FY2001 agriculture appropriations: (1) provisions in the House Committee bill that would exempt agricultural products from U.S. trade sanctions against foreign countries (including Cuba), and require $115 million in spending cutbacks to fund market/quality loss payments for apples and potatoes; and (2) whether the $1.3 billion in emergency FY2000 spending contained in the Senate bill should count toward the $7.14 billion allowed for emergency farm aid by the congressional budget resolution, or be in addition to it.

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[1] FY1999 agriculture spending also was augmented by a total of $6.5 billion in emergency supplemental funding for payments to farmers, disaster assistance, and loan programs, etc. (P.L.105-277 & P.L. 106-31)

Farm Safety Net, or Countercylical Income Protection. The recent spate of emergency farm spending bills has brought to light a philosophical difference in farm policy. The 1996 farm law eliminated the link between farm payments and market prices and substituted for this annual lump sum contract, or (AMTA) payments that would decline in amount each year until they were phased out in 2002. Farmers eligible for AMTA payments were wheat, feedgrains, cotton, and rice farmers. Additionally, these and soybean and oilseed farmers continued to be eligible for marketing loan assistance. This assistance, which provides deficiency payments for the difference between loan rates and market prices, was capped. Under the new law, farmers would receive annual government payments, regardless of prices and production. They were given almost total planting flexibility; planting restrictions and setasides were eliminated. The philosophy behind this law was that farmers should plant to markets instead of federal programs. For the first 2 years after the farm bill, farm prices for many commodities hit record highs, and along with them, farm income. However, prices and income began to fall as supplies grew and demand fell off in 1998. Subsequently, Congress began to pass a series of "emergency" farm aid measures designed to shore up farm income.

Under the past three emergency farm aid laws, the bulk of additional "emergency" aid was disbursed, with no limits or income targeting, to all farmers receiving AMTA payments (i.e.,grain, cotton, and rice farmers) and oilseed, tobacco, peanut and dairy farmers. This distribution method was favored by many in Congress who see it as the appropriate way to get payments out to farmers quickly. The Administration and some congressional Democrats have contended that the aid should go to those who actually suffered losses and thus, should be distributed through the marketing loan program, or other mechanisms that tie farm deficiency payments to market prices. Efforts to change the marketing loan program through appropriations measures failed in 1999, in large part because of the price tag associated with them, but also because of concern that this would reverse the market-oriented direction of the 1996 farm law. Nonetheless, because marketing loans maintain a link between prices and farm payments, there are many who see these as a more appropriate vehicle for delivering farm payments to farmers suffering losses than simply adding to everyone's AMTA payments. Most of the marketing loan or revenue-linked emergency payment proposals in this Congress have been made by Democrats. These would: (1) remove the caps to provide higher marketing loan deficiency payments (S. 30. H.R. 1299, and H.R. 1468); (2) extend loan repayment terms giving farmers more time to pay back loans (S. 30 and H.R. 1299) and (3) reestablish the farmer-owned reserve so that farmers can retain ownership of their crops until market prices rise (H.R. 2704 and S. 839). Others (H.R. 2792 and the Administration proposal) would provide supplemental income payments for producers of crops eligible for marketing assistance loans (i.e., wheat, feed grains, cotton, rice, and oilseeds) whenever the current year's national gross revenue for a crop falls below a specified percentage (95% in H.R. 2792; 92% in the Administration proposal) of the previous 5-year average. The Administration aid proposal also would cap at $30,000, the amount of payments a farmer could receive. (For more information, see CRS Report 98-744, *Agricultural Marketing Assistance Loans and Loan Deficiency Payments* CRS Issue Brief IB10043, *Farm Economic Relief: Issues and Options for Congress,* CRS Report RS20416, *Emergency Farm Assistance in FY2000 Appropriations Acts*, and CRS Report RL30501, *Appropriations for FY2001: U.S. Department of Agriculture and Related Agencies.)*

Crop Insurance. The federal crop insurance program insures participating farmers against losses from natural disasters. It provides: (1) "catastrophic" coverage to producers growing an insurable crop, with premiums fully paid by the federal government and a minimal administrative fee paid by farmers; (2) "Buy-up" protection to obtain additional coverage, at a less subsidized rate, and (3) Revenue insurance products protecting limited numbers of farmers against losses from low prices, low yields, or both. Many farmers have expressed dissatisfaction with the coverage and costs of crop insurance (particularly for additional "buy-up" protection) and either do not participate or waive additional coverage. The 1996 farm law required farmers to sign a waiver of eligibility for any federal disaster or other payments for crop losses if they chose not to participate in the crop insurance program. It was hoped this would encourage greater participation and lessen the need for almost annual ad hoc emergency disaster payments to farmers for disaster-related losses. Neither has proved to be true: participation has not expanded and the Congress has nullified the waiver of benefits in every disaster bill enacted since 1996. The main issue for Congress is how to design a program that is affordable to those at high risk, attractive to those at low risk, and acceptable in terms of federal costs and private insurers' willingness to underwrite.

In general, there has been bi-partisan agreement on the need for improving the risk management benefits of the crop insurance program, and on spending federal money to do so. For most legislators and the Administration, this had meant proposals to expand coverage, eligibility, and federal subsidies for crop insurance. The conference agreement on the crop insurance reform bill (H.R. 2559) was passed by the House on May 25, 2000. This bill also expands coverage for multiple year natural disasters and authorizes pilot programs for livestock farmers, and a broader risk management strategy endorsed by Senator Lugar. The additional cost of the crop insurance program under these reforms is just over $8 billion, and room was made in the FY2000 and 2001 budget resolutions for this additional spending. An emergency farm aid package providing $7.1 billion in further spending in FY2000 and FY2001 for farm income assistance was added to the crop insurance conference agreement. (For more information, see CRS Issue Brief IB10033, *Federal Crop Insurance: Issues in the 106th Congress.)*

Agricultural Trade. With over 25% of U.S. farm income derived from agricultural trade, many in Congress believe that long-term remedies for low farm prices and income depend upon enhancing U.S. trade policies. Thus, farm groups and legislators generally support: (1) formally bringing China, which imported just over $1 billion in U.S. farm products in FY1999, into the world trading community; (2) exempting agricultural exports explicitly from unilateral U.S. economic sanctions on foreign countries (H.R. 17, H.R. 1906, S. 757, S.1233);(3) expanding export and food aid programs; and (4) pressing for tough negotiations to lower foreign-imposed barriers to U.S. farm products (H.R. 434).

On May 24, the House approved legislation (H.R. 4444) making permanent normal trade relations (NTR) with China. This would make annual renewal of NTR unnecessary and improve China's prospects for entry into the World Trade Organization. China's potentially lucrative export market for U.S. farm goods, has generated strong support among many in agriculture for passage of permanent NTR legislation, and this is regarded as a key vote for the industry this year. Meanwhile, provisions affecting agriculture are contained in the enacted African Growth and Opportunity Act (H.R. 434, P.L.106-200). Among other things, these allow rotation in the types of products targeted for trade retaliation (so-called "carousel retaliation") and are intended to put more pressure on the

EU to resolve the meat hormone dispute. Provisions in this bill also would create a chief agriculture negotiator in the office of the U.S. Trade Representative, address unfair trading practices of state trading enterprises, and set explicit U.S. objectives for agriculture in WTO negotiations. Other legislation passed by the House (H.R. 17) and reported by the Senate Agriculture Committee (S. 566) that might see further action would exempt agricultural and medical products from current or future U.S. imposed sanctions against foreign countries. Meanwhile, WTO sectoral negotiations on agriculture continue. Areas of dispute include domestic support, export subsidies, state trading enterprises, GMOs, and "multi-functionality," or non-trade related issues like environmental safety, animal welfare, and small farm preservation. (See CRS Issue Brief IB10040, *Agricultural Trade Issues in the 106th Congress*, and the CRS Trade Briefing Book [http://www.congress.gov/brbk/html/ebtra1.html].)

Dairy Policy. Included in the omnibus consolidated year-end spending package for FY2000 (P.L. 106-113) were provisions extending the Northeast dairy compact for 2 years, and revising pending USDA farm milk pricing policy changes along lines favored by Northeast and Southern dairy interests. These provisions are strongly contested by Midwestern legislators, who had defeated earlier attempts to get similar provisions into the FY2000 regular agriculture appropriations act (P.L. 106-78). Some may want to revisit these changes, especially the compact, which Midwestern dairy interests regard as an anti-competitive pricing system that prevents marketing of their less expensive product to areas outside their region. Hearings in the Senate on dairy pricing policy were held on February 8 and 9, 2000. The lack of consensus on this issue was apparent at these hearings, and expert observers see little chance that anything other than a straight extension of the current dairy price support program, scheduled to expire at the end of 2000, will be approved this year. (See CRS Issue Brief 97011, *Dairy Policy Issues.)*

Livestock. The reviving Asian economy appears to be boosting demand and reversing some of the price declines in the livestock sector. Prices had been declining for some time, with the heaviest declines in the hog sector, where average price per hundredweight fell from almost $53 in 1997 to $30.50 in the Spring of 1999 (after having sunk to a record low of $14.70 in December 1998). Oversupply and slaughter capacity limitations are reasons given for the declines, as is the changing structure of the industry. Some also believe that the growing use of price contracting arrangements between producers and processors has exacerbated low livestock prices. Mandatory price reporting by large meat packing firms was incorporated by conferees into the FY2000 agriculture appropriation law (P.L. 106-78). There also have been proposals calling for country-of-origin labeling for imported meats (H.R. 169, H.R. 693, S. 675), as well as eligibility for marketing loans to swine producers (H.R. 217). The conference agreement on crop insurance legislation (H.R. 2559) includes provision for pilot projects for livestock insurance.

Industry Concentration. The changing structure of the agriculture sector, particularly with respect to mergers between major grain companies and concentration in the livestock sector, is seen by some as a cause of persistent low farm prices. A proposal (S. 1739) to restrict mergers and increase federal regulation of the non-farm sectors of the agriculture industry was offered in the first session as an amendment to FY2000 agriculture appropriations. It was not adopted in the finally-enacted law. A proposal in the House (H.R. 3159) calls for more rigorous application of anti-trust laws and increased reporting requirements for processors and manufacturers in the agriculture sector. Bills also have been introduced to establish a position with responsibility for agricultural antitrust matters in the Department of Justice (S.1984) and to make it illegal for meat packers to own, feed or control animals intended for slaughter (S. 1738/H.R. 3342). At issue are: (1) the adequacy and employment of existing federal antitrust statutes to protect farmers against anti-competitive practices; (2) the extent to which mergers influence farm prices and their impact on farmers and consumers; (3) the most effective mechanism for regulating industry mergers; and (4) the appropriate role of the federal government in regulating industry. At a hearing on agricultural concentration held by the Senate Agriculture Committee on February 1, 2000, there was agreement on the need to improve coordination of anti-trust activities between the USDA and Justice Departments.

Animal & Plant Health Inspection. The Animal & Plant Health Inspection Service (APHIS) is the agency of the USDA responsible for protecting the domestic food and fiber industry from foreign pests and diseases. The agency carries out its responsibilities under 10 major statutes. For several years policymakers have been concerned about conflicts among these laws and provisions in them that do not reflect current knowledge and practices in plant and animal protection. The major issues concern federal versus state authority in this area, and the degree to which APHIS should expand its plant protection authority to include the protection of natural ecosystems. Four bills (H.R. 1504, S. 321, S. 910, S. 983) proposing to modernize the APHIS statutes were introduced in the 106th Congress. Provisions similar to those in H.R. 1504 were added to the crop insurance reform conference agreement, passed by the House on May 25. (For more information, see CRS Report RS20401, *Agricultural Quarantine: Congress Debates Reform of Plant Protection Authorities.*)

Biotechnology. Genetic engineering of plants is an increasing part of agriculture. Genetically modified organisms (GMOs) are being used by growers to lessen plant susceptibility to pests and reduce the need for chemicals to prevent plant diseases and insect infestations. Concerns have arisen that the unregulated use of this technology will spill over to unharvested lands and interfere with the natural evolution of valuable species and possibly lessen their effectiveness. Another concern is that seed companies will increase their control over plant production and lessen farmers' ability to reuse seeds and maintain control over input and production costs. Some U.S. trading partners (especially European Union countries) also have raised questions about the safety of this technology to human health. Although there currently is no scientific evidence to support claims about risk to human health, there is strong cultural resistance in many European countries to this type of technology, and there is concern about restrictions this may place on U.S. exports of genetically modified products. Supporters of GMO technology contend that it can help underdeveloped nations become agricultural producers and/or help to feed millions of starving people in these areas. Moreover, they argue that the environment and human health is made safer by less dependence on chemicals in agricultural production, and that stated human health concerns about GMOs often are influenced by the desire to protect native-produced agricultural products from U.S. competition. Restrictions on imports and labeling of GMO products are expected to be major issues in the next round of WTO trade negotiations.(See CRS Report 98-861 ENR, *U.S.-European Agricultural Trade: Food Safety and Biotechnology Issues.)*